

◆ Cosmo Energy Holdings (Stock code: 5021)

Third Quarter of Fiscal 2022 - Financial Results Explanatory Meeting for Analysts and Investors - Summary of Q&A

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- This material contains descriptions regarding future prospects. Notes are provided at the end of this material. -

1. Date and time : Friday, February 10, 2023, 10:00 to 11:00 (JST)
2. Attendees : 90 persons
3. Main questions and answers :

Q1: In terms of the profit margin of the Petroleum Business, what was the extent of a downward swing compared with the forecast figures for the October to December period? Also, what is your revision to the previous forecast for the January to March period?

A1: The October to December period had a shortage of around 4 yen per litter compared to the plan, while in the January to March period, it is expected to increase 1 yen per litter from the previous announcement. Consequently, full-year forecasts are estimated to be 0.7 yen per litter lower than the previous announcement.

Q2: Why do you raise the estimate for the January to March period from the previous announcement despite the shortage in the October to December period?

A2: Because the current situation is better than we had expected.

Q3: Major shareholder has raised some issues for the next Medium-Term Management Plan, including the appropriate level of net worth and how to raise funds for the Renewable Energy Business. Can we expect that the Company's counterproposal regarding these issues will be reflected in the next Medium-Term Management Plan? Or, because communication with major shareholder is not going well as the Company disclosed, should we think that the issues raised by the major shareholder will not necessarily influence on the formulation of the Medium-Term Management Plan?

A3: The Company has shared the same vector with major shareholder, that is, the improvement of enterprise value, regarding which the Company and major shareholder are not in conflict. The problem lies in the process. Our past Medium-Term Management Plans mainly focused on the profit levels and financial position, but recent global trends have made it necessary to improve enterprise value. Therefore, we would like to disclose the Company's recognition of its issues and how we should work to improve enterprise value in the Medium-Term management Plan without adhering to the opinions of major shareholder.

Q4: Regarding the profit margin of the Petroleum Business, please tell us the absolute value of the negative time lag caused by the decline of crude oil prices since November. Moreover, what is your forecast for the full year?

In addition, please explain the impact of the crude oil procurement composition ratio when excluding the influence of the time lag.

A4: We would like you to understand that the time lag is just a reference value. Time lag for the April to December period was -2 yen per litter, and the time lag in the previous year was +0.7 yen per litter. Accordingly, change from the previous fiscal year was -2.7 yen per litter.

In the full year, as the time lag in this fiscal year will be -1 yen per litter, and in the previous fiscal year it was +2 yen per litter or so, we assume change from the previous fiscal year will be around -3 yen per litter.

In terms of the impact of the crude oil procurement composition ratio, the higher composition ratio of Murban Crude Oil and lower composition ratio from Saudi Arabia compared to our competitors reduced the crude oil procurement costs during the term under review at this time.

Accounting for the profit margin in the April to December period being +0.7 yen per litter includes the time lag change of -2.7 yen per litter from the previous fiscal year, profit margin excluding time lag improved +3.4 yen per litter including the impact of crude oil procurement costs.

Change in the full-year profit margin from the previous year will be -0.3 yen per litter including the time lag change of -3 yen per litter from the previous fiscal year, so profit margin excluding time lag will improve nearly 3 yen per litter, which also includes the impact of the crude oil procurement costs.

Q5: The financial soundness indicator forecasts for the end of the fiscal year have continuously met the targets set in the current Medium-Term Management Plan. Do you see any need to improve these indicators in the next Medium-Term Management Plan in view of requests from creditors and other factors?

A5: We would like to show the net worth target based on the bond ratings and how much risk we should take into account for the future growth of each of our businesses.

Q6: As you mentioned, the full-year impact of time lag in the current fiscal year is expected to be -1 yen per litter. If you assume that market conditions will level off in the next fiscal year, it is reasonable to think the impact of the time lag will be resolved in the next fiscal year?

A6: We have been negatively affected by the time lag during the current fiscal year, but if the impact of the time lag is resolved in the next fiscal year, it will be a factor that will increase profits.

Q7: Regarding wind power generation business, please tell us about the progress in offshore wind power promotion areas.

Also, in terms of onshore wind power, after operations begin at Kamiyuchi and Oita, I think there are no other projects that have been disclosed in the following four years or so. Are there any developing projects that you can disclose to us?

A7: Regarding the offshore wind power promotion areas, we would like to refrain from answering in line with the guidelines for offshore wind public tender.

Regarding onshore wind power, after the two projects begin operations at the end of this fiscal year, we have no major projects during the period of the next Medium-Term Management Plan. However, we will proceed with replacement. In addition, we would like to continue to develop the project through public tenders.

Q8: Please restate your profit margin for the Petroleum Business for the October to December period and the January to March period.

A8: In the October to December period, it fell 3.9 yen per liter shortage of the plan. But the result included a time lag impact of around -5 yen per liter, so we believe the profit margin excluding the time lag impact has improved.

The profit margin in the January to March period is estimated to be approx. 1 yen per liter higher than the previous announcement, while time lag impact is expected to result in a slightly positive amount. Accordingly, we also expect an improvement of the profit margin excluding time lag impact.

Q9: Regarding offshore wind power, the Akita Port and Noshiro Port projects in Akita prefecture have begun operating. How much are they expected to contribute to the full-year net sales and profits? Also, how much of the total project cost of 100.0 billion yen did Cosmo HD pay?

A9: In this project, the Company's share of the facility capacity is 7%. We would like to refrain from disclosing its performance and the total cost of the project.

Q10: Regarding the Akita Port and Noshiro Port offshore wind farm projects, what level of return on investment are you expecting? If the details of the projects which have started operating are not disclosed, it is difficult to incorporate the projects under development into the calculation of enterprise value.

A10: We refrain from discussing individual projects, but they meet the Company's project investment criteria. Because the Company's share of this project is small, it is difficult to disclose. However, we would like to consider disclosure methods for cases where the Company becomes a major investor in the discussions for the next Medium-Term Management Plan.

Q11: What do you think about the advantages of being a minority investor in a project?

A11: The Akita Port and Noshiro Port offshore wind farm project take place in harbor area, but they are value opportunities of large-scale offshore projects where we can gain expertise.

Q12: Please tell us your understanding of the cost of shareholders' equity and WACC in the current and next Medium-Term Management Plans.

A12: Regarding the next Medium-Term Management Plan, because we are now in the discussion process, we would like to refrain from answering the question.

As for the cost of shareholders' equity, we understand that there is a gap from the capital market's evaluation, but currently we estimate it to be around 10%.

Q13: Regarding the Qatar Petroleum Development contract renewal, please tell us more information about the background and its economic efficiency. The five-year contract period seems short. What is your perspective on the amount of the investment and the production ?

A13: Because the previous contract was scheduled to expire in December 2022, we have been discussed with Qatar Energy. In the new contract, we continue operation as an operator, but do not have a plan for further investment as an operator. We believe that the profit level is comparable to the previous level.

End

This Q&A contains forward-looking statements about the plans, strategies and performance of Cosmo Energy Group. These statements are based on forecasts we produced by assessing information currently available to us. These statements include assumptions and judgments that are based on information currently available to us.